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STRATEGIC STUDIES INSTITUTE
US ARMY WAR COLLEGE
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JAPANESE-INDONESIAN RELATIONS: A CASE STUDY OF THE SCOPE AND LIMITS OF ECONOMIC POWER IN INTERNATIONAL AFFAIRS

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STRATEGIC STUDIES INSTITUTE
US ARMY WAR COLLEGE
Carlisle Barracks, Pennsylvania

JAPANESE-INDONESIAN RELATIONS: A CASE STUDY OF THE SCOPE AND LIMITS OF ECONOMIC POWER IN INTERNATIONAL AFFAIRS

by

Thomas L. Wilborn

20 January 1978

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The views of the author do not purport to reflect the position of the Department of the Army or Department of Defense.

FOREWORD

This memorandum considers the interplay of economic, political, and strategic interests between Japan and Indonesia and their bearing on the United States. The author views Indonesia, the largest non-Communist state in Southeast Asia, as the key to stability in the area. He concludes that, if the United States wants the benefits of an allegiance with a strong Japan, it must concern itself with Indonesia, even if direct US interests by themselves do not appear to justify too much attention.

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This memorandum was prepared as a contribution to the field of national security research and study. As such, it does not reflect the official view of the College, the Department of the Army, or the Department of Defense.

ROBERT G. YERKS
Major General, USA
Commandant

BIOGRAPHICAL SKETCH OF THE AUTHOR

DR. THOMAS L. WILBORN has been with the Strategic Studies Institute since 1974. He earned a bachelor's degree in journalism and a master's degree and doctorate in political science from the University of Kentucky. In addition to teaching political science and international relations at Madison College and Central Missouri State University, his professional background includes a position with the University of Kentucky educational assistance program at Bandung, Indonesia.

JAPANESE-INDONESIAN RELATIONS: A CASE STUDY OF THE SCOPE AND LIMITS OF ECONOMIC POWER IN INTERNATIONAL POLITICS

The examination of Japanese-Indonesian relations offers valuable insights for students of US foreign and security policy. Japan is, after all, a principal ally of the United States—one expected to perform a critical role in the maintenance of global and Asian balances of power favorable to US interests. Indonesia, as the largest non-Communist state in Southeast Asia, probably is the key to stability in an area where the United States still has important interests but, partly as a result of the Vietnam experience, would prefer to avoid visible, major involvement. Japan's willingness and ability to support economic, social, and political development in Indonesia under a regime acceptable to the United States may at least partially determine whether US interests in Indonesia and Southeast Asia (among others, the restriction of Soviet, PRC, and Vietnamese influence; access to the Strait of Malacca and other waterways; and the protection of US investments) are enhanced or endangered.

JAPAN'S STAKE IN INDONESIA

Japanese-Indonesian relations are in many ways untypical of Japan's

relations with most Third World nations, including those in Southeast Asia. In the first place, Indonesia is more important to Japan than almost any other less developed country (LDC)–only South Korea and the major oil-producing states of the Persian Gulf could be considered more significant. Indonesia is Japan's fifth largest trading partner (behind the United States, Saudi Arabia, Iran, and Australia[1]) providing many commodities for the Japanese economy, and the location for more than $2 billion of Japanese investments. Probably of greater significance, even though it is rarely mentioned officially, is Indonesia's strategic position. Almost all of Japan's oil imports either are shipped through the Strait of Malacca, claimed by Indonesia and Malaysia under a 12-mile territorial sea rule, or are produced in Indonesia. The most direct route to Australia, the source of half of Japan's bauxite imports, and large portions of imported iron ore, zinc, and lead, passes through relatively narrow passages of the Indonesian archipelago.[2] In fact, under the archipelago principle asserted by Indonesia, a large segment of the route from Japan to Australia is through waters over which Indonesia claims sovereignty. Thus far, neither Indonesia nor Malaysia has attempted to regulate or interfere with Japanese shipping (except to reduce the chances of oil spills), and it is clearly in Japan's (and all other maritime states') interest that they not do so.

Undoubtedly, the importance of these waterways may be exaggerated. Were all of these passages denied vessels bound for Japan, cargoes from the Middle East would have to reroute around Australia or through the Panama Canal, adding time and expense to the trip and creating a serious problem for Japan. But such a development is highly improbable unless there were a general war in the area. Less implausible disruptions with shipping, e.g., partial blockages, slowdowns, harassing regulations, or levying of fees, would also be relatively less serious. Indeed, Michael MccGuire has argued that since international trade normally accounts for less than 10 percent of Japan's GNP, the worst case of having to circumvent the area altogether would have only a small impact on the Japanese economy. The costs to Japan of building and deploying a navy to protect its almost worldwide lines of supply, or even only those in Southeast Asia, he points out, would certainly be greater than the costs of accommodating to the closure of these waterways.[3] It should still be emphasized, however, that increases in the costs of petroleum and certain other commodities transported through the area would reverberate through the other 90 percent of the Japanese economy and probably lead to higher prices. The disadvantage

that Japan experienced would not be shared by other industrial states in anything like the same degree, with the result that Japan's position in the international market would inevitably suffer, possibly causing domestic unemployment and recession. The entire basis of Japan's prosperity would be in jeopardy.

It does not seem improbable, therefore, that even with a relatively slight obstruction of the normal transportation patterns, there might be significant political consequences within Japan. The party in power, probably the now ruling Liberal-Democrats, could suffer, as ruling political parties usually do as a result of unfavorable economic and international developments. More importantly, the imposition of restrictions by a foreign power, particularly a relatively small one, could offend Japanese national pride and lead to demands for a more assertive international posture and possibly military forces to protect Japanese interests and honor. While attitudes favorable to remilitarization have not been dominant in Japan, the possibility "no longer can be dismissed lightly, on account of a more assertive mood in Japan."[4] Even a breakdown in security in the Strait of Malacca resulting from political instability and the weakening of Indonesian governmental authority could have consequences which would be distasteful and expensive for Japan.

Indonesia also looms large in Japan's foreign policy calculations because of the relevance of Indonesia to Japan's global concerns. Above all else, Japanese policymakers desire the improvement—at least continuation—of the relatively stable economic and political international order which permitted Japan's phenomenal economic growth after World War II. This requires continuation of the security relationship with the United States, a balance among the superpowers and China so that all are restrained from destabilizing behavior, and as free monetary and trade systems as possible. Indonesia's international role is probably not very relevant to Japanese-American relations, which undoubtedly have the highest priority for Japan. But Indonesia's behavior could have a bearing on the global balance of power and the stability of the international economic system.

From Japan's perspective, Indonesia's most significant impact on the global balance of power is, or could be, through its role in the affairs of Southeast Asia, especially in the Association of Southeast Asia Nations (ASEAN). If either China or the Soviet Union were to substantially increase its influence among ASEAN members, the result would not only endanger direct Japanese interests in the area, but also affect

Asia-wide and global Sino-Soviet-US balances. Chinese or Soviet dominance in ASEAN would provide a strategic advantage which would cause concern–perhaps anguish–in Tokyo and Washington, and anguish–perhaps horror–in the capital of the unsuccessful Communist rival. At present, both Communist powers appear content to restrain the influence of the other in the area rather than seek such dominance, but this situation could easily change due to developments within ASEAN nations, alterations in the larger international environment, or domestic political developments within China or the Soviet Union. As barriers to this possibility, Japan apparently intends to reinforce its own diplomatic efforts by encouraging a continuing, if low profile, American presence, and a viable ASEAN which would deny Communist states the opportunities for intervention. The prospects for ASEAN, whose accomplishments so far have been modest, are at best uncertain, and without the leadership of a strong Indonesia, larger and potentially more wealthy than the other members combined, they are extremely poor. Political stability and economic growth in Indonesia is thus a factor in what, from Japan's point of view, is a key to a satisfactory balance of power in Asia and the world.

Indonesia's role in the so-called North-South conflict is also of interest to Japan. While the two countries are clearly opposed on the international economic issues which divide the industrial "North" from the less developed "South," neither have assumed leading roles in the debate. Undoubtedly, the Japanese policymakers–together with their colleagues in the United States and Western Europe–would prefer for Indonesia to refrain from sponsorship of radical positions, as Minister of State Widjojo seemed to do at the Nairobi meeting of UNCTAD in 1976,[5] and remain an advocate of moderation and restraint. Undoubtedly also, Japan would like to see Indonesia use its influence in the Organization of Petroleum Exporting Countries (OPEC) to counsel for similar moderation and restraint.

While Japan's relations with Indonesia are in many ways unique, other features of Japan's interaction with Indonesia appear to be guided by economic policies and priorities which apply to Japan's relations with all nations, particularly other LDC's. That Japan is almost totally dependent on external sources for the raw materials needed by its industry is well known. Table 1 summarizes this situation. Especially since the action of Arab oil producers in 1973 and the subsequent manipulation of price by OPEC, the Japanese political elite has placed a high priority on reducing its dependency on any given source of supply by diversification, and by attempting to assure access to needed

Raw Material	Estimated Import Dependence in 1975 (%)
Copper	82.0
Lead	46.0
Zinc	57.0
Aluminum	100.0
Nickel	100.0
Iron Ore	91.0
Coking Coal	92.0
Petroleum	92.9
Natural Gas	73.6
Uranium	100.0

From Paul S. Manglapus, *Japan in Southeast Asia: Collision Course,* p. 8.

Table 1. Japan's Import Dependence for Raw Materials

resources through the direct participation of Japanese business in their exploitation and production. Thus, Japanese capital increasingly has moved into the mining and mineral sectors of LDC's, which supply most of these resources. It seems clear that this program is considered of great importance, and it has been supported by the allocation of official development assistance, which goes disproportionately to Japan's major suppliers of raw materials.[6] Of course, Japanese business, supported by the government, has concurrently sought to expand its exports to developing nations.

Until recently, Japanese investment in manufacturing in LDC's, including Indonesia, has been limited to textiles, the assembly of commodities whose parts were made in Japan, and a few other generally small plants which exploited the cheap labor supply of the LDC's. Now, however, to protect Japan's environment, appease the demands of environmentalists, and curb the growth of energy consumption in Japan, overseas investment in heavy polluting and oil consuming industries is being encouraged, especially when there is a savings in transportation costs by importing a finished or semifinished product rather than the raw material. Such pollution and oil consumption exporting projects benefit the investors by allowing them to acquire relatively inexpensive satisfactory industrial sites, increasingly difficult to obtain within Japan itself,[7] and also may partially satisfy LDC demands for investments in export oriented manufacturing. A leading illustration of this policy, the giant aluminum processing and hydroelectric generation complex now under

construction at Asahan, northern Sumatra, was initiated by and given a high priority by the Indonesian government.

As a result of these priorities, the roles of Japanese business and businessmen in international affairs have been enlarged at the expense of the roles of government agencies and officials, particularly the Ministry of Foreign Affairs and diplomats.[8] These policies also have reinforced, in the eyes of the political elites of many LDC's, the image of the Japanese as an "economic man," ruthlessly pursuing his selfish goals whatever the consequences to others.

JAPANESE-INDONESIAN ECONOMIC INTERACTIONS

Japanese-Indonesian interactions are almost exclusively economic in nature—and very extensive—involving trade, investment and foreign aid. The broad lines of Japanese-Indonesian trade are summarized in Table 2, which, even though many of the figures are approximations, gives a relatively accurate picture of movement and direction. From 1970 to 1974, when the recession in industrialized nations reduced demand for Indonesian products significantly, Indonesia's export income grew by almost 540 percent, due primarily to increases in oil production and the escalating price of that oil. (Incomplete reports on 1976 trade suggest that export earnings have recovered, and may again begin to increase.[9] During the same period, the value of Japan's purchases from Indonesia increased by 777 percent (spending more than eight times as much for some 44 percent more petroleum in 1974 than in 1970).[10] Japan bought from 39 percent to 53.3 percent of all Indonesian exports, and from 56.7 percent to 73.5 percent of Indonesia's most important export, oil. Even in 1975, when Japan cut its imports from Indonesia sharply, Japan accounted for 44 percent of all Indonesian exports, and 49.1 percent of petroleum exports. The second largest buyer was the United States, with purchases less than half of those of Japan in every year.

Nonoil exports to Japan have been extremely important also. They increased only a little less dramatically than oil exports through 1974. In the slump of 1975, however, they dropped in value by more than 50 percent from 1974's high, while oil exports fell by the less damaging amount of 11.8 percent (24 percent in volume from 1974, and 48 percent from 1973). Assuming a return to prosperity and a moderate degree of economic growth in Japan, Japanese purchases of nonoil products should return to 1974 levels and continue to expand. Japanese demand for timber, bauxite, rubber, and other products should be strong, and in the next few years deliveries of aluminum from the

	1970	1971	1972	1973	1974	1975
Indonesian Exports to the World*						
a. Mineral oils	446.3	477.9	913.1	1608.7	5211.4	5304.8
b. Nonoil	714.3	755.7	864.6	1602.1	2214.9	1797.7
c. Total	1160.6	1733.6	1777.7	3210.8	7426.3	7102.5
d. a as % of c	38.4	38.7	51.4	50.1	70.2	74.7
Indonesian Exports to Japan**						
e. Mineral oils	(319.1)	(351.3)	(596.4)	(1035.2)	(2952.3)	(2604.7)
f. e as % of a	(71.5)	(73.5)	(65.3)	(64.3)	(56.9)	(49.1)
g. Nonoil	(133.3)	(199.1)	(305.4)	(672.2)	(1017.0)	(527.1)
h. g as % of b	(18.7)	(26.3)	(35.3)	(42.0)	(45.9)	(29.3)
i. Total	452.4	550.4	901.8	1707.4	3969.3	3131.8
j. i as % of c	37.0	44.6	50.7	53.2	53.5	44.1
k. Indonesian Imports From the World	1001.5	1102.8	1561.7	2729.1	3841.9	4769.8
l. Indonesian Imports From Japan	294.5	361.9	531.8	799.7	1131.0	1654.4
m. l as % of k	29.4	32.8	34.0	29.3	29.4	31.0

*From *Indonesia in Brief*, pp. 25-26, for 1970-74; 1975 figures taken from *Asia Research Bulletin*, Section 3, "Foreign Aid, Trade and Investment," May 31, 1976, p. 202. All figures are millions of dollars.
**Figures in parentheses are estimates, based on sources cited above and *Japan's Economy and Trade in 1974*, pp. 24-27, and *Direction of Trade*, December 1976.

Table 2. Selected Data on Japanese-Indonesian Trade

Asahan project (due around 1980) and liquified natural gas (scheduled for this year) will begin. While these sales will provide a boost for the Indonesian economy, they will also increase Indonesia's vulnerability to the business cycle in Japan, which is already very high. Japan not only has purchased most of Indonesia's oil since 1970, but also large portions of other commodities. In 1971, 90 percent of all nickel, 85 percent of all timber (which accounted for 18.8 percent of all exports in 1973), and all iron dust was sold to Japan.[11] Japan is likely to be the major purchaser of the aluminum from Asahan and Indonesia's liquified natural gas (LNG) production, also.

Indonesia imports more from Japan than from any other nation, with the United States again holding a distant second. The proportions are less significant, however, and, while the value of imports from Japan have steadily increased, they have remained at about 30 percent of all imports since 1967. The prediction that Japanese imports would soar with the infusion of Japanese capital has not—or not yet—been realized.

In terms of value of trade, Indonesia is far less important to Japan than Japan is to Indonesia. Japanese exports to Indonesia have been gradually growing as a proportion of total Japanese exports, but in 1975 they were only 3.3 percent, and in the first nine months of 1976 dropped to 2.4 percent.[12] The same products accounted for 31 percent of Indonesian imports. Imports from Indonesia, which accounted for 3.4 percent of all Japanese imports in 1970, had more than doubled as a proportion of Japanese imports by 1974, but still only represented 7.4 percent.[13] In 1975 they dropped to 5.9 percent, and were running 6.4 percent during the first three quarters of 1976.[14] Table 2 shows, on the other hand, that these purchases represented 39 percent and 44.1 percent of all Indonesian exports in 1970 and 1974 respectively. Put in another way, Japan was both Indonesia's biggest customer and supplier; Indonesia was Japan's sixth ranking customer, and its fifth largest supplier, in 1975.[15]

In addition to being Indonesia's major trading partner, Japan has invested more in Indonesia than any other foreign national group except Americans. American investment is primarily in the petroleum industry, where it is said to total about $3 billion, in the form of production sharing agreements with Pertamina, the state oil concern that holds title to all petroleum resources.[16] Japanese investment has almost all gone into nonoil sectors of the economy, and in September 1976, had reached an approved level of $2.5 billion or 38 percent of the $6.5 billion total of approved nonoil foreign private investment in Indonesia. The closest rivals were the United States ($1 billion

approved) and Hong Kong ($647 million approved).[17] The Japanese projects range in size from very small enterprises to the $850 million Asahan hydroelectric and aluminum complex and are distributed over most sectors of the economy. The heaviest concentrations are in mining and timber, mainly producing materials to sell back to Japan, and the textile industry, primarily producing for the domestic market.

Although these projects are joint ventures which involve Indonesian partners, sometimes with nominally controlling interests, the Japanese businesses are said to normally exercise almost exclusive control over the operations. This is partly because Japanese businessmen tend to be more skilled and knowledgeable than their Indonesian counterparts. That Japanese business concerns—especially the giant transnational trading companies which dominate the Japanese business community in Indonesia—have greater resources than Indonesian businesses is probably the more significant reason. In particular, the Japanese trading companies, all organized around one of Japan's major banks, are able to obtain credit at much more favorable rates than that available to its Indonesian partner from Indonesian financial institutions.[18] Statistics to document the extent of Japanese private credit and its impact on the Indonesian economy are not available, but it is widespread. In some cases—perhaps a large number—the Indonesian is a figurehead whose only contribution to the capitalization of the enterprise is his access to officials in Jakarta, and who performs no management function at all. In many other cases, management responsibilities are divided in such a way as to exclude Indonesians from important positions.[19]

Foreign aid to Indonesia, primarily allocated through the Inter-Governmental Group for Indonesia (IGGI), is an essential ingredient of Indonesia's development program. Although increased export earnings have enabled Indonesia to finance part of its development program from its own resources, some 35 percent of the current development program (down from 80 percent in 1969) must be financed through foreign loans and grants. From 1965, when the Soeharto regime assumed power, to 1976, Indonesia has been the recipient of $8.3 billion in foreign aid, and it intends to continue seeking increasing amounts annually, at least for several years to come.[20] Overall, the United States has contributed $1.7 billion, slightly more than Japan's $1.6 billion. Since 1973-74, however, US contributions have declined, leaving Japan as Indonesia's current largest donor. For the years 1975-77, Japan pledged about a third ($273 million) of $842 million pledged by governments in the IGGI. The Asian Development Bank, in which Japan has the dominant influence,

pledged almost 20 percent of the $1.2 billion to be provided by multilateral lending institutions participating in the IGGI.[21] During the years of the New Order, moreover, Indonesia has received larger sums of official development assistance from Japan than has any other nation. At the end of 1973, Indonesia had received 20 percent more than India ($1,055 million and $802 million, respectively), and more than twice as much as the third largest recipient, South Korea ($413.5 million).[22] In 1974 and 1975, Indonesia received about one-fourth of Japan's official development assistance.[23]

These economic interactions undoubtedly provide Japan with valuable assets in dealing with Indonesia, particularly under the present regime. President Soeharto has not only made the success of the development program the principal goal of the nation, but also almost the only basis for the New Order's legitimacy.[24] And since the development strategy depends on expanding exports and increasing amounts of foreign private investment and official development assistance, the nation which is the largest customer and largest source of external funds obviously is in a strong position to influence the pace of development and the very existence of the regime.

ECONOMIC LIMITS ON JAPAN'S INFLUENCE

The economic relationships between Indonesia and Japan are not all asymmetrical, however, and therefore there are economic limits on Japan's ability to use its economic assets to influence even the present regime. While Japan's position as Indonesia's largest consumer makes its behavior critical for the success of current development plans (the retraction of Japanese demand in 1975 had serious budgetary consequences in Indonesia), Indonesia's position as a supplier of oil--and soon LNG--and, to a lesser degree, certain other resources, is too important for the Japanese to ignore. Only 13.7 percent of Japan's oil imports in 1974 came from Indonesia, a relatively small amount compared to the 80 to 85 percent imported from the Middle East. Due to expanded imports from China, the ratio is now and will probably stay at about 10 percent.[25] Nonetheless, 10 percent represents an important quantity for a nation with no margin of energy resources to spare. Furthermore, the retention of suppliers like Indonesia is necessary for Japan if it is to provide itself any hedge at all against possible future punitive action by Arab states. No other commodity provided by Indonesia is as important as petroleum, but to have to substitute for Indonesian bauxite, timber, or other materials would be costly and inconvenient, at least in the short run. The loss of

Indonesian sources of supply would violate the policy of diversification, and thus possibly be perceived by Japan as dangerous in the long run. This is not to imply that Japan would in no circumstances use its strong consumer position to try to affect Indonesian behavior, but to emphasize that there would be significant costs, even in purely economic terms, which would have to be considered and justified.

At any rate, trends of the past few years appear to be slightly reducing Indonesian dependence on Japanese purchases, although admittedly the evidence is not conclusive and the most recent information still shows that Japan dominates Indonesian export markets. In 1974 and 1975, for instance, the volume of petroleum purchased by Japan decreased by 11 percent and 24 percent respectively (although the value of Indonesian petroleum increased in 1974 and decreased only 11.8 percent in 1975), but total Indonesian export sales managed to show 2.5 percent increase in volume in 1974, and only a 4.2 percent decline in 1975. Indonesia found other buyers to compensate for most of the Japanese shortfall, mostly in the United States, Australia, and ASEAN region. The Indonesians will certainly attempt to at least maintain these new customers. On the other hand, the Japanese have a new supplier to cultivate in the People's Republic of China, and may therefore deliberately restrict their purchases from Indonesia somewhat to accommodate Chinese imports without disturbing their arrangements with Middle East suppliers. However, Indonesia had less success in redirecting exports to compensate for the fall in Japanese demand for nonoil products as demand in all industrial countries declined. The value of nonoil exports to Japan in 1975 was \$480 million less than in 1974; the value of all nonoil exports fell by 87 percent of that amount, \$417 million. As suggested above, Japan's share of Indonesian nonoil exports may be increasing in the near future as LNG and aluminum join the list of commodities bought primarily by Japanese buyers, possibly further increasing Indonesia's dependence on the Japanese market. Nonetheless, overall Indonesia has reduced its export dependency on Japan, and, perhaps more significantly, has demonstrated that it can find alternative markets as substitutes for Japan, even in a short time. The value of economic instruments in international politics decline as the target nation develops alternative markets and sources of supply.

As a principal source of both private investment and official development assistance, Japanese business and the Japanese government also have obtained influence over the Indonesian economy and economic policy, and have helped create a sensitivity to Japanese

interests in Indonesian foreign policy. In the long run, the fact that Japanese funds are concentrated in nonoil ventures may result in Japan surpassing the United States as the largest foreign investor, for oil is a diminishing resource. At the same time, the Japanese are under constraints. They are in competition with investors from America, Hong Kong, and other nations. And to the degree that future investment in Indonesia seems attractive, both in terms of profits for Japanese business and foreign policy objectives of the Japanese government, to that degree the Japanese must be sensitive to Indonesia's desires. Thus, in 1975, New Japan Steel turned over managerial control to its Indonesian partner, Pertamina, even though the latter had provided only 10 percent of the capitalization, reportedly because it felt it had to do so in order to obtain future opportunities for investment.[26] The Indonesian government can also set conditions for new investments, and regulate the activities of companies doing business in Indonesia. In 1976, foreign oil companies were forced to accept an 85-15 percent split of profits rather than the 65-35 percent split under which they had been operating.[27] Since 1974, in reaction to the demonstrations accompanying Prime Minister Tanaka's visit to Jakarta, the regime has required that all joint ventures must, in a reasonable time, be at least 51 percent owned by their Indonesian partners, who must be *pribumi,* i.e., ethnic Indonesian rather than ethnic Chinese. Limits were also imposed on the number and types of foreign personnel, and obligations for relatively rapid Indonesization were imposed.[28] At the present time, there apparently is emphasis on manufacturing; investments for purely extractive operations are considered less desirable.[29] The wisdom and effectiveness of these and similar regulations may be questioned, but they do demonstrate that Indonesia is not helpless before Japanese or other foreign capital.

The New Order would find it extremely difficult to replace Japanese foreign aid unless attitudes in other industrialized nations, which have not been increasing their foreign aid commitments, change significantly, and it does intend to seek additional funds even though their acceptance may place a severe strain on Indonesia's budget.[30] Soviet aid, cut off after the 1965 attempted coup by the *Partai Komunis Indonesia* (PKI), has been reestablished, but it is unlikely that President Soeharto and his staunchly anti-Communist generals would accept (or be offered) amounts large enough to offset the need for Japanese assistance. Nonetheless, the availability of Soviet assistance does somewhat reduce the regime's dependence on the West generally and Japan specifically. A more salient restriction on Japan's ability to

influence Indonesia through the allocation or threat of reduction of aid is that Japanese policymakers perceive (and are believed by Indonesians to perceive) of foreign aid to Indonesia as beneficial to Japan. It is intended to support Japan's resource policy, benefit the businessmen who have investments in Indonesia, and contribute to economic growth and therefore political stability in an area where instability is a constant threat to Japanese interests. The Soeharto regime's vulnerability to Japanese influence because of its need for Japan's aid is partially offset by the Japanese perception that aid to Indonesia is of benefit to Japan.

POLITICAL LIMITS ON JAPANESE INFLUENCE

Japan's influence in Indonesia—or, more exactly, the freedom of an Indonesian government to respond favorably to Japanese proposals—is also restricted by domestic Indonesian politics. There is a strong and pervasive orientation among the members of Indonesia's foreign policy elite, both supporters and critics of the present regime, to view the world as a hostile environment for Indonesia, and to value independence above all else as a goal of national policy.[31] While most of them also recognize foreign investment and aid as an evil necessary for economic development, they are extremely sensitive to charges of economic dependence, and critical of policies which give credibility to such charges. At the present time, American and Japanese economic activity appears to be the greatest threat to the desired independence, with Japan the more visible and feared possible predator. Beyond that, Japanese, especially Japanese businessmen, are thoroughly disliked by Indonesians.

Tension between demands for independence and the need for foreign assistance, seen as at best partially incompatible with the goal of complete independence, has been a recurring theme of Indonesian foreign policy debate since the formation of the Republic in 1945. Those in power and burdened with the responsibility to govern, while they may have been as ideologically committed to independence as anyone, have generally been advocates of relatively greater reliance on external assistance than their domestic opponents, almost irrespective of the political complexion of the groups in competition. As Franklin B. Weinstein has pointed out in his careful analysis of Indonesian foreign policy elites, the decisive variable has seemed to be the degree of political competition at the time, although other factors, e.g., the skill of the leader and ideological beliefs, have also entered in.[32] When several groups have been in competition for power, as during the period of Guided Democracy when Sukarno, the PKI, and the Army

continually (but never publically) struggled for ascendancy, policies designed to emphasize independence prevailed over those designed to obtain maximum foreign investment and aid; none of the competing groups could afford to appear to be less nationalistic than the others. On the other hand, when there has been relatively little or relatively low level effective competition, as since the establishment of the New Order regime under Soeharto, it has been possible for the government to give priority to policies designed to entice foreign assistance; criticism of these policies, even though articulated, did not have to be accommodated in the absence of political competition. Recent events seem to support Weinstein's analysis: regulations restricting the role of foreign capital in Indonesia were promulgated after the Tanaka demonstrations in 1974, when university students, probably aided by some high officers in the Army, appeared to be developing popular appeal. The approach of the 1977 elections saw the renegotiation under duress of contacts with foreign oil companies (although this move was pretty clearly also–perhaps mainly–motivated by the need for additional revenue), and the relatively militant posture at the UNCTAD meeting in Nairobi. The approaching electoral campaign, during which more open discussion of the government's performance was to be allowed, and the desire for the government to obtain a broad popular endorsement at the polls, led the regime to appease nationalist sentiments in Indonesia.

The more-or-less cooperative relationships between the Soeharto regime and Liberal-Democratic governments in Japan, in which both parties apparently view some of their separate interests as basically complementary, could be disrupted, then, assuming the validity of Weinstein's hypothesis, if effective competition to the New Order emerged. The present military-technocrat coalition, or any group which replaced it, could be expected to place relatively greater emphasis on independence and relatively less on foreign assistance for development, the degree of the shift in priorities depending on the extent of competition or the nature of a new regime. Inevitably, Japan's access to Indonesia would be restricted and the domestic political costs of cooperation with Japan would rise. Effective opposition does not now seem to exist, it should be emphasized, and the political system is still characterized by only personal and factional competition within the military and civilian bureaucracy. But signs of dissatisfaction are widespread, as grievances resulting from the long rule of the New Order and evidence of mismanagement and corruption have accumulated, and government performance, especially in the economic realm, has failed

to meet expectations and the regime's oft repeated promises. Given the instability inherent in developing societies, opposition and dissatisfaction could rapidly coalesce into a meaningful political force—or forces—should some event or person provide the catalyst. Sooner or later, certainly, the authority of the present regime will wane, and a new or altered coalition, very possibly lacking the internal cohesion of the New Order, will assume the responsibility of government.

Japan's position probably would become particularly difficult compared to other nations with financial interests in Indonesia under conditions of competition because of the widespread hostility toward the Japanese, and because the most objectionable features of the New Order have become identified with Japanese business activity and Japanese businessmen.[33] Patterns of conspicuous consumption and luxurious lifestyles by some of the Soeharto inner circle, including many generals, are thought to result from and be impossible without foreign—primarily Japanese—payoffs and bribes. The high rate of failures of Indonesian business are believed to have been caused by unscrupulous practices of mostly Japanese businessmen and the tight money policies of corrupt officials benefitting from the success of Japanese enterprise. Continued poverty of the masses, high unemployment, prosperity of ethnic Chinese (with whom Japanese businessmen have tended to cooperate), and the decline of moral values, are all associated by various groups with the presence of foreign business and businessmen, the most objectionable and culpable believed to be Japanese. The extent of abuses and misconduct has probably been exaggerated through the informal channels of information among dissidents in Jakarta, but they seem consistent with many people's personal knowledge of Japanese business practice, and are believed. In addition, Japanese are disliked for their sense of superiority, their exclusiveness, and their tenacious loyalty to their employers' prosperity instead of the goals of Indonesia. It is possible, however unlikely, that Japanese businessmen might alter the objectionable business practices and partially improve their public image in Indonesia. The attitudes of superiority, loyalty, and exclusiveness, however, are expressions of fundamental values of Japanese culture, and are unlikely to be quickly changed.

Japan's ability to influence Indonesia, particularly in support of Japan's long-term objectives, could also be impaired because the interests of the Japanese trading companies and the political and security interests of the Japanese government may not always coincide.

Although it is true that Japanese politicians (the leadership of the Liberal-Democratic Party), business leaders, and higher bureaucrats can and often have shown a remarkable degree of cohesion in executing policy, "Japan, Inc." has been most efficient and effective in support of policies designed to achieve economic growth for Japan, a goal which all of the participating groups enthusiastically endorse.[34] The ability of Japanese business and a number of government agencies to coordinate their activities to acquire and exploit Indonesian resources has apparently awed many Indonesians, who feel that Indonesia's relatively meager assets for dealing with Japan frequently have been dissipated by a lack of common purpose.[35] However, a broad agreement does not appear to exist on how Japan should deal with LDC's, including Indonesia, beyond the relatively narrow questions of commercial policy and resource acquisition, or on what Japan should do to protect its strategic interest in Southeast Asia.[36] The consensus required to project the common front of "Japan, Inc." in support of decisions which Japan, to optimize its security and long-term political interests, may need to implement, specifically towards Indonesia, could be increasingly difficult, especially without prior agreement on general policy. To foster stability, the Ministry of Foreign Affairs and other government agencies might wish to encourage the development of political and economic institutions. Businessmen and their allies within the bureaucracy, on the other hand, might conclude that their immediate objectives and competitive position were best served by bribery of government officials and manipulation of indigenous entrepreneurs, subverting those institutions. The requirements of security and maintenance of access to Indonesia's decision centers, especially under a different regime in the future, may seem to justify allotments of foreign aid to projects which will immediately benefit large segments of the population; from the investor's perspective, programs which primarily expand Indonesia exports or support key officials of the regime may seem more appropriate. Due to their position in the Japanese political system, a united business community could probably block decisions which appeared to jeopardize their investments or profitable trade activities in Indonesia without providing compensating benefits. If present divisions among businessmen persist, policies could be adopted which some business concerns in Indonesia reject and, by their noncooperation or opposition, compromise in practice. Either way, Japan's ability to affect Indonesia's policy could be restricted.

Parenthetically, it should be noted that economic and political

realities would tend to moderate any Indonesian regime's behavior toward Japan, even if internal political competition and popular hostility toward Japan were intense. However harsh the rhetoric might become, it is inconceivable that any Indonesian government would in fact ignore the significance of Indonesian-Japanese relations to Indonesia's economy. Japan's presence as a balance to Soviet, Chinese, and US influence will almost surely continue to be considered desirable. Furthermore, Indonesians, with most Southeast Asians, fear the spector of a rearmed Japan[37] using military instruments to achieve its goals more than the Japan of today, and would hesitate to take action that might motivate rearmament. While these considerations would not necessarily prevent (and have not prevented) an Indonesian government from opposing any given Japanese initiative or adopting policies inimical to Japanese interests, they would set limits on Indonesian policymakers.

HISTORICAL EVIDENCE

Historically, the evidence to illustrate the scope or limits of Japan's ability to influence Indonesia, or Japan's vulnerability to pressure from Indonesia, is inconclusive. In the many economic agreements that the two governments have concluded, the interests of both, as defined by their respective governments, have apparently generally been served. Japan, particularly Japanese business, has appeared to exact large benefits at times, but on others, Indonesia has seemed to obtain the relative advantage. Japan has sometimes rejected Indonesia's pleas for assistance on specific projects, and sometimes virtually has capitulated to Indonesian demands for funds. In political affairs, their interaction, openly at least, has been limited. In the final years of Sukarno's rule, the Japanese attempted to resolve Indonesia's dispute with Malaysia, but without any obvious effect. After Soeharto replaced Sukarno, Japan agreed to a loan for the new regime only if the "crush Malaysia" campaign were halted. Normal relations with Malaysia were established, but since Soeharto and his generals had already determined to end the confrontation with Malaysia, Japan's demand probably had only limited effect.[38] Indonesian critics of the New Order primarily cite two events as illustrations of foreign policy choices made because of Indonesia's economic dependence on Japan.[39] A fishing agreement with Japan, too generous to the Japanese in the view of the critics, is said to have been accepted only because of the need for Japanese aid. Indonesian support for a Japanese-sponsored "two China" proposal in the United Nations, which resulted in isolating Indonesia from other

nonaligned nations and contradicting years of Indonesian policy, is also seen as an expression of dependence.

The Indonesian positions in these cases may have resulted from a sense of economic dependence, as charged. However, it has been argued that Indonesia's actions simply reflected the leadership's perception of Indonesia's best interest. The fishing treaty, by some interpretations, extended Japanese fishermen no benefits that they were not already enjoying without a treaty. The effect of the agreement, according to this argument, was to prevent the Japanese from expanding the scope of their operations. Indonesia's position on the seating of the PRC in the Security Council did violate longstanding Indonesian policy and did separate Indonesia from most nonaligned states on the issue. Rather than a docile reaction to Japanese (and American) pressure, however, this action could be interpreted as a reflection of the Soeharto regime's intense antipathy toward Peking, and an attempt to signal some support for the Nationalist government on Taiwan, with which Indonesia had developed commercial (but not diplomatic) relations. In any case, the Indonesians knew that, in fact, the PRC would be recognized and the Taiwan regime expelled, so that the political costs of inconsistency and isolation would not be too severe or paid for an extended period. On the other hand, Indonesia has resisted Japan's effort to draw it into the Asia and Pacific Council, considered too pro-West to be consistent with nonalignment, and opposed, successfully, the attempt of Prime Minister Miki to inject Japan into the affairs of ASEAN.[40] On at least two occasions, Japan has been overtly responsive to Indonesian desires. In 1962, when the campaign to "free Irian Barat" from the Dutch was at its height, Japan refused to allow the Dutch warship Karel Dorman to dock at Japanese ports and planes carrying troops to reinforce the Dutch garrisons in New Guinea to land for refueling, after strong protests were lodged by Jakarta. More recently, Japan was Indonesia's most outspoken defender in the UN deliberations on Portuguese Timor, even though most Western states opposed Indonesia's position or abstained. Neither instance may be a significant example of Indonesia's success at influencing Japan, however. In the first case, the government had militant unions also protesting the arrival of Dutch imperialists to contend with. In the second, Japan really had little at stake in the outcome, and assumed few risks in supporting Indonesia.

SUMMARY AND CONCLUSIONS

The general finding of this analysis, not unexpectedly, is that Japan's economic decisions, whether made by the Japanese government or

Japanese businesses, inevitably have a great impact on Indonesia, but that Japan cannot necessarily mobilize its impressive economic capabilities to achieve foreign policy objectives, especially noneconomic ones. Indonesia has economic capabilities of its own, and there are reciprocal needs, so that even purely economic bargaining between the two, in a hypothetical situation where noneconomic factors are irrelevant, is likely to be characterized by mutual accommodation. The inclusion of political and strategic considerations into the analysis suggests additional restraints on Japan's potential to influence Indonesia, particularly with respect to achieving stability in Southeast Asia under regimes friendly to Japan, assumed in this paper to be the major precondition for the achievement of Japanese regional strategic objectives.

The leaders of Soeharto's regime, while they have obviously differed with many aspects of Japanese policy, have generally viewed their economic and security objectives to be compatible with those of Japan. They have seemed to consider Japanese trade, investment, and aid as critical to the success of their development strategy. Furthermore, the New Order has had the strength, relative to its domestic critics, to accept Japanese economic penetration even when the results were extremely unpopular in Indonesia, where attitudes toward the Japanese appear to grow more hostile daily. The emergence of effective, or potentially effective, opposition to the present regime could dramatically increase the political risks of pursuing these policies, however. The nationalistic content of foreign policy, and the deemphasis of development rationale, has always accompanied increases in the degree of competition within the Indonesian political system. When this competition emerges, whether it results in a change of government or not, Indonesian policymakers may at times choose to reject some benefits that Japan extends (or accept some penalties that Japan imposes) because of domestic political rewards and costs.

On the other hand, Japan's actions which support one of its objectives may threaten another. Current practices of Japanese business, for instance, may be valuable in acquiring resources for the Japanese economy, but, by further enriching a privileged Indonesian elite without substantially benefitting the rest of the population, may also contribute to political instability and anti-Japanese sentiments which later could result in the loss of access to decision centers, the spread of Soviet or Chinese influence, and even disruption of shipping through Indonesian waterways. All nations, particularly those with capitalist economies, are constrained by the requirement to

simultaneously pursue conflicting foreign policy objectives. But the Japanese political system is unique among industrialized nations in the high value it places on consensus and the influential position held by business, so that it is particularly difficult for long term, essentially political, interests to be imposed over immediate economic objectives. It seems likely, therefore, that commercial/economic concerns will continue to take precedence over other considerations, and that Japan's ability to protect its political and strategic interests in Indonesia will be less than it otherwise could be.

IMPLICATIONS FOR THE UNITED STATES

Since the end of American involvement in Vietnam, there has been uncertainty about almost every aspect of US policy toward Asia but one: Japan is the major American ally and the center of American concern. Indeed, in both the later years (at least) of the Nixon/Ford administration and the beginning period of the Carter administration, relations with Japan have been a central focus of US global–not merely Asian–policy. This analysis, although it has emphasized restraints on Japanese behavior, has indicated that Japan is indeed a valuable ally, and a significant factor in global and Asian balances of power. Its actions have an almost decisive impact on the economies of Indonesia, and examination of Japan's economic interactions with other LDC's, especially in Southeast Asia, would reveal the same type of relationship. Economic decisions made in Japan can contribute to economic development and political stability within its weaker partners, assuming indigenous governments provide appropriate leadership, and thereby enable those nations, like Indonesia, to better resist unwanted foreign influence and, hopefully, help maintain relative tranquility in their regions of the world.

It is reasonable to conclude, then, that if the United States requires or desires to continue to benefit from its alliance with Japan, it must not only concern itself with the security of the Japanese archipelago, but also with those other regions of great strategic significance where unfavorable events could jeopardize Japan's economy and Japan's utility as an ally. The United States is active in most of these places: the Persian Gulf, Western Europe, the Panama Canal, and, at least for the present, Northeast Asia. In Southeast Asia, however, America's role has declined and there are proposals that it be reduced even further because the interests of the United States are allegedly relatively insignificant there. But even if direct American interests were insignificant (a debatable proposition that this writer does not accept), the United

States has acquired an important stake indirectly because of the area's significance to Japan, and Japan's significance to the United States.

Assistance to Japan in the defense of its strategic interests in Indonesia and Southeast Asia does not require the deployment of military force, although should there be a military threat to Japan in the area, the United States by legal and moral commitment would be required to take appropriate action, which might or might not involve military action. US naval and air forces, protecting American strategic interests, are already located close to Indonesia, and could be used if necessary—an unlikely requirement.

Japanese-Indonesian interactions are economic and political, and any support from the United States needs to be in these realms rather than military affairs. American and Japanese policy toward Southeast Asia, and especially Indonesia, should continue to be coordinated. When interests of the two nations do diverge in small ways (it is very unlikely that general objectives will be incompatible in the foreseeable future), the United States should be cognizant that Japan's stake in Indonesia is probably the greater. This is not to suggest that the rights of US businessmen and investors should not be vigorously defended when they are in competition with Japanese concerns. Japan's larger political and strategic objectives are not necessarily effected by private commercial operations; as a matter of fact, competition with American firms would probably be wholesome. It may be appropriate, however, to be sensitive to legitimate Japanese concerns on such matters as the archipelago principle and other questions of the law of the sea debates, access to the Strait of Malacca, and ASEAN.

One of the possible major impediments to Japan's making a maximum contribution to the maintenance of satisfactory strategic relationships in Southeast Asia is a function of the policymaking process within Japan that requires consensus among the principal components of the elite. The United States, of course, is not entitled to interject itself into Japan's domestic political process, and it might be counterproductive if the attempt were made. Japan has been unusually resistant to external demands, the submission to the Arab Organization of Petroleum Countries in 1973 being almost the only clear instance. But external pressures are used by domestic groups to help achieve policy ends,[41] so that opportunities for the United States to subtly influence Japanese policy toward Indonesia might develop. There is debate in Japan over issues which are relevant to its relations with Indonesia, and (if the opportunity develops) US proposals might tip the balance in favor of those who, with the authors of a Ministry of

International Trade and Industry White Paper, believe that "we [Japan] must make an unswerving effort for the quantitative and qualitative improvement of our foreign economic cooperation to a level befitting the strength of this nation."[42] Much that complicates Japan's relations with Indonesia, such as practices of Japanese business sanctioned by long usage and attitudes based on basic cultural values, could at best only be marginally affected by any set of government or corporate decisions. However, programs for better training of public and private personnel, changes of personnel procedures to reward overseas work, and allocation of assistance with less emphasis on immediate gain to the Japanese economy (all being advocated within the Japanese government) could be implemented with benefit to Japan's image in Indonesia, and to the development of Indonesia's economy.

ENDNOTES

1. *Japan's Economy and Trade in 1974,* Tokyo: Ministry of Foreign Affairs, 1975, pp. 8-17. The ranking is for 1974.

2. Masataka Kosaka, "Options for Japan's Foreign Policy," *Adelphi Papers No. 87,* 1973, p. 24, lists 27.8 percent of imported iron ore, 17.8 percent of imported zinc, and 24 percent of imported lead as coming from Australia. These are probably FY 72 figures.

3. Michael MccGuire, "The Geopolitical Significance of Strategic Waterways in the Asian-Pacific Region," *Orbis,* Fall 1975, pp. 1070-1073.

4. Kosaka, p. 34.

5. David Jenkins, "Indonesia: End of the Klondike," *Far East Economic Review,* July 30, 1976, p. 76. More recently, Indonesia has returned to a nonconfrontational position.

6. T. J. Pempel, "Japanese Foreign Economic Policy: The Domestic Basis for International Behavior," paper presented to the Annual Meeting of the American Political Science Association, Chicago, Illinois, September 2-5, 1976, p. 28.

7. *Ibid.,* pp. 28-29.

8. William E. Bryant, *Japanese Private Diplomacy: An Analysis of Business-Government Linkages,* New York: Praeger, 1975, pp. 51-60, details the role of businessmen in establishing contacts with the Soeharto government. For a fascinating account of the role of businessmen in the interaction of Japan and the Sukarno regime, which includes the story of Sukarno's courtship with his Japanese wife, Dewi, see Mashashi Nishihara, *The Japanese and Sukarno's Indonesia: Tokyo-Jakarta Relations, 1951-1966,* Honolulu: The University Press of Hawaii, 1976, especially pp. 151-187.

9. *Direction of Trade,* December 1976, p. 33.

10. *Asia Research Bulletin,* Section 5, "Mining and Minerals," September 30, 1976, p. 246.

11. Soedjono Hoemardani, "Indonesia-Japan Relations in the Future–A Strategic Review," *Indonesian Quarterly,* January 1974, p. 5.

12. *Direction of Trade,* December 1976, p. 33.

13. *Japan's Economy and Trade in 1974,* p. 12.

14. *Direction of Trade,* December 1976, p. 33.

15. *Ibid.*

16. The Indonesian government does not issue statistics about foreign investment in the petroleum industry. Three billion dollars is generally accepted as a reasonable estimate of American capital.

17. *Asia Research Bulletin,* Section 3, "Foreign Aid, Trade and Investment," November 30, 1976, p. 266. David Jenkins, "Indonesia: A Rethink on Investment," *Far East Economic Review,* January 28, 1977, p. 38, estimates that 50-60 percent of approved levels are actually invested.

18. Franklin B. Weinstein, "Multilateral Corporations and the Third World: The Case of Japan and Southeast Asia," *International Organization,* Summer 1976, pp. 381-383.

19. See *Ibid.,* p. 389 and Raul S. Manglapus, *Japan in Southeast Asia: Collision Course,* New York: Carnegie Endowment for International Peace, 1976, p. 55.

20. Soeharto, Address of State by the President of the Republic of Indonesia Before the House of People's Representatives, August 16, 1976, Embassy of Indonesia (Washington), mimeo, pp. 19-20.

21. For the years 1966-1975/76, see Franklin B. Weinstein, *Indonesian Foreign Policy and the Dilemma of Dependence: From Sukarno to Soeharto,* Ithaca: Cornell University Press, 1976, p. 370; for 1976/77, see *Asia Research Bulletin,* Section 3, "Foreign Aid, Trade and Investment," July 31, 1976, p. 222.

22. Sukihiro Hasegawa, *Japanese Foreign Aid: Policy and Practice,* New York: Praeger, 1975, p. 64.

23. "The 1976 White Paper on Japan's Economic Cooperation," *News From MITI,* January 14, 1977, p. 15.

24. In this the New Order contrasts sharply with Sukarno's regime, which based its legitimacy more on Sukarno's personal charisma and nationalist ideology. See Weinstein, *Indonesian Foreign Policy and the Dilemma of Dependence,* pp. 248-250.

25. The 1974 percentage was computed from *Japan's Economy and Trade in 1974,* pp. 24-27. Large purchases of Chinese crude began in 1975, and there are conflicting reports about the future of the trade. Most observers seem to believe that it will remain at approximately current levels.

26. *Mainichi,* June 30, 1975, p. 1, translated in *Daily Summary of the Japanese Press,* American Embassy, Tokyo, July 4-7, 1975, p. 11. The paper viewed the demand as "alarming."

27. Described in *Asia Research Bulletin,* Section 5, "Energy Mineral Resources," November 30, 1976, pp. 262-263.

28. David Jenkins, "Indonesia: A Rethink on Investment," *Far East Economic Review,* January 28, 1977, p. 38.

29. Jenkins, "Foreign Investment: Indonesia's Aims," *Far Eastern Economic Review,* December 17, 1976, pp. 48-49.

30. Indonesia's loan repayments are planned to reach 20 percent of foreign exchange revenue by 1980, the upper limit considered permissible by the International Monetary Fund. Soeharto, p. 19.

31. The discussion of Indonesian internal politics and foreign policy is based on Weinstein, *Indonesian Foreign Policy and the Dilemma of Dependence,* especially the final portion beginning on page 288.

32. *Ibid.,* p. 288.

33. *Ibid.,* pp. 281-284; Manglapus, passim; and Nishihara, pp. 98-127 and 150-209, contain many examples of objectionable behavior by Japanese businessmen, and attempt to explain its cause.

34. Manglapus, pp. 25-39, presents a readable description of the features of Japanese culture which produce the "Japan, Inc.," phenomenon.

35. Hoemardani, p. 13.

36. In addition to disputes over foreign aid, business leaders have shown considerable disagreement on questions of investment. See Susumu Awanohara, "Fading Out of Joint Ventures," *Far East Economic Review,* July 9, 1976, pp. 44-45, and Derek Davies, "Time for Japan to Come In Out of the Cold," *Far East Economic Review,* December 24, 1976, pp. 32-34.

37. Forty percent of Weinstein's respondents considered Japan a potential military threat. *Indonesian Foreign Policy and the Dilemma of Dependence,* p. 99.

38. Nishihara, pp. 128-150.

39. Weinstein, *Indonesian Foreign Policy and the Dilemma of Dependence,* pp. 123, 262.

40. On February 17, 1977, ASEAN foreign ministers agreed to invite the Prime Ministers of Australia, Japan, and New Zealand to meet with ASEAN heads of state immediately after a formal ASEAN meeting. This cannot be considered a Japanese victory, however, for Miki had sought to meet alone with ASEAN leaders during their meeting.

41. See Pempel, pp. 18-40.

42. "The 1976 White Paper on Foreign Economic Cooperation," p. 32.

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Indonesia is Japan's fifth largest trading partner, and the location of \$2 billion of Japanese capital. It controls, together with Malaysia, the Strait of Malacca, and, alone, sea passages between Australia and Japan. Indonesia is also important for Japan in maintaining a suitable balance of power in Asia and a satisfactory world economic order.

Japan is Indonesia's largest customer, buying around half of all exports, and from 55 to 73 percent of all exported petroleum. It is also (continued)

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Indonesia's major supplier. For the last several years Japan has been Indonesia's principal donor of economic assistance.

These economic interactions undoubtedly provide Japan with valuable assets in dealing with Indonesia. But there are restraints on Japan's potential to affect Indonesian behavior, particularly with respect to achieving stability in Southeast Asia under regimes friendly to Japan.

The United States must concern itself with Indonesia if it wants the benefits of an alliance with a strong Japan, even if direct US interests by themselves do not appear to justify too much attention. The deployment of military forces probably would not be desirable.

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